HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
St. John's CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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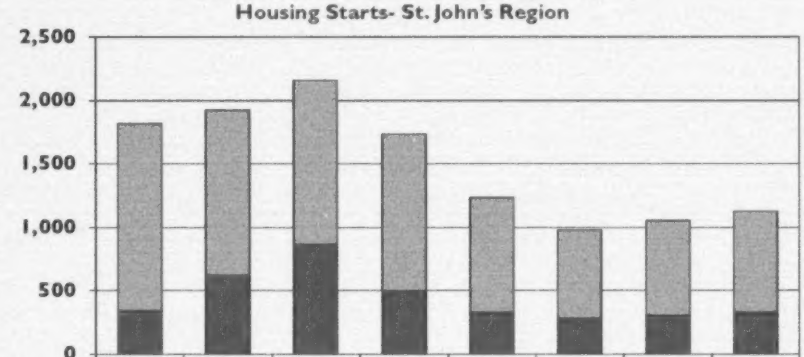
Highlights

- Residential sales and construction to remain flat due to low commodity price environment
- Less new home construction activity over forecast period
- MLS® sales and prices to remain near current levels through 2017
- Growth will be focused on the rental market

Figure 1

New Home Construction Activity Cools
Housing Starts- St. John's Region



	2010	2011	2012	2013	2014	2015(f)	2016(f)	2017(f)
Singles	1,479	1,302	1,292	1,243	907	700	750	800
Multiples	337	621	861	491	323	275	300	325

Source and Forecast: CMHC

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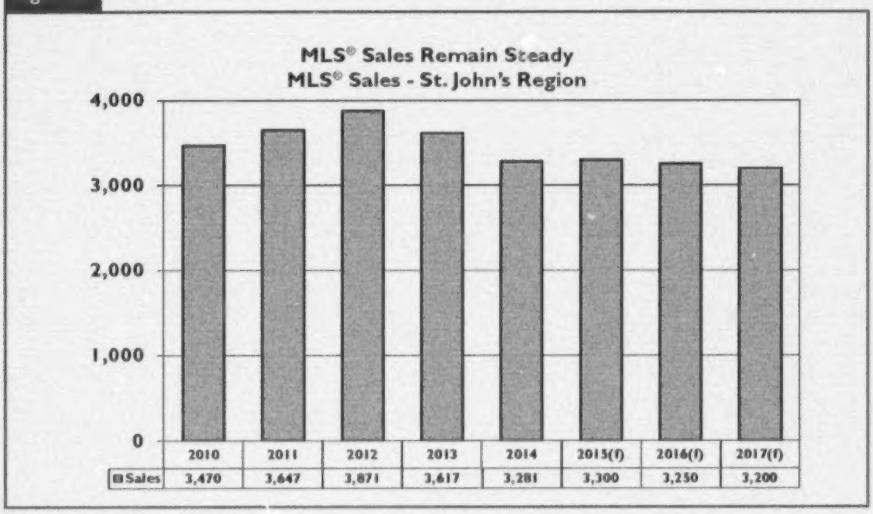
Figure 2



Source: CREA; Forecast: CMHC
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New Home Construction

New home construction activity will be driven less by spec building and more by motivated buyers as demand for new homes cools over the forecast period. Housing starts are much lower than recent levels so far in 2015 and new home construction is expected to remain relatively slow in 2016 and 2017. This is mainly due to muted economic growth caused by a lower commodity price environment, particularly the price of oil. Inventory levels within the local housing market in general are also expected to remain elevated and this will result in very little price growth through 2017. The average single-detached price for a new home is trending around the $430,000 level so far in 2015, up 3.5 per cent. Prices have increased, despite much lower demand for newly built homes this year. Growth is not expected to continue over the forecast period as prices continue to realign with demand fundamentals. Accordingly, average prices are expected to be flat at about $430,500 in 2016 and $431,000 in 2017.

Following several years of accelerated activity, the new home construction market has slowed considerably since 2012. With only 907 single-detached units started in 2014 and 700 expected this year, activity will remain slow through 2017, relative to recent trends in construction. Single-detached housing starts are forecast to rebound slightly to 750 units in 2016 and 800 units in 2017. The current ample inventory of new single-detached dwellings, paired with very little speculation building activity, will keep the new home construction market relatively flat to the end of 2017.

The local market trend of a bungalow basement apartment addition is expected to continue over the forecast period. Given current house prices, some homebuyers have a need and/or preference for this housing option because it allows for adding an income-generating apartment unit to offset their mortgage carrying costs. Also, recent mortgage insurance rule changes now allow for 100 per cent of the apartment rental income to be included as income compared to only 50 per cent prior. With many first-time buyers preferring these two-apartment homes as their entry option into homeownership, demand for both row and semi-detached homes will be weak over the forecast period.

Fewer condo starts are also expected through 2017, due to a rise in the number of new unabsorbed units. This is the result of record construction activity in the condominium market in 2012 and some of the remaining new units priced over $450,000 are still unsold. The largest segment of prospective condo buyers is the retirement age group, who will continue to create demand for condos throughout the St. John's area over the forecast period. They prefer to move from their current home to a condo without taking on additional mortgage debt, but high condo prices have made it more challenging to make the transition mortgage free. As a result, lower-priced condo development and purpose built rental apartment activity is expected to rise slightly in 2016 and 2017. After 323 multiple housing starts in 2014 and 275 multiple units likely this year, expect 300 units in 2016 and 325 units in 2017. With 1,230 total housing starts recorded in 2014, expect a modest level of 975 total housing starts for the St. John's area this year, 1,050 total starts in 2016 and 1,125 starts in 2017.

MLS® Sales and Prices

The St. John's area MLS® market is expected to remain relatively stable over the forecast period. MLS® sales should reach 3,300 units this year, up slightly from last year's 3,281 sales, with 3,250 unit sales forecast for 2016 and 3,200 sales in 2017. With new home sales accounting for about one-third of total MLS® sales in recent years, the expected lower new home construction activity over

the forecast period will contribute less to total MLS® sales through 2017. Fewer new home sales and higher inventory levels since 2012 have resulted in prices declining slightly this year for the first time in ten years. Robust new home construction activity has contributed significantly to average MLS® residential price growth in the past, but has had less of an effect recently. With higher inventory in the local resale market and subdued demand for housing in general, the forecast is for moderate price growth through 2017. After 1.7 per cent growth in 2014, the average MLS® house price will be down slightly to about $300,000 this year, before growing to $303,000 in 2016 and $306,000 by 2017. The active move-up homebuyer segment is expected to continue to support demand for above-average priced homes and this trend will support prices. Below-to-average-priced bungalows, row and semi-detached homes, will remain appealing to first-time homebuyers and other modest income households in the St. John's area.

Rental Market

The introduction of newly completed units in the local apartment universe and continued demand for rental living options will provide growth within the rental market over the forecast period. As such, average rents are expected to rise, while the vacancy rate will remain relatively unchanged through 2017.

On the demand side, an active labour market will continue to support the migration of workers to the St. John's region. House prices may discourage or prevent some renters from accessing homeownership thereby supporting demand for rental units. Also, low tuition fees at Memorial University and local colleges continue to attract both local and international students to the area, who are likely to rent when searching for local housing options.

Continued investment in purpose built multi-unit residential rental projects will continue over the forecast period. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment bungalow homes excluded) is expected to remain at four per cent through 2017. Despite recent increases, vacancy rates remain relatively low and steady demand paired with new expensive units being added to the universe will continue to drive average rents moderately higher. The average two-bedroom monthly rent is expected to increase to $900 by the end of this year and to $915 in 2016 and $930 in 2017.

Economic Trends

Economic growth in Newfoundland and Labrador (NL) will remain below the pace of the other three provinces in Atlantic Canada until 2017. GDP is expected to turn positive at 0.2 per cent in 2016, followed by growth of 1.4 per cent in 2017. The province's economic future continues to be focused on energy and resource investment. As a result of the current commodity price weakness, some of the projects currently under consideration are at risk of being delayed or extended out over a longer period for development. A lack of provincial economic growth may impact the St. John's economy because the majority of the province's oil industry's activities have a direct impact on the capital city. Economic growth for the city, however, will also be supported by consumer spending and continued offshore energy investment activity. Recent news about potential new oil fields and lease exploration agreements outside of the existing production areas help to stabilize the level of optimism and investment. These new projects are expected to stimulate additional economic activity over the next several years throughout the province and the St. John's region.

The province's labour market conditions continued to soften in 2015 for the third year in a row. Employment growth is forecast to rebound modestly with close to 0.5 per cent growth in 2016 and 2017. The unemployment rate is expected to rise marginally to 12.3 per cent in 2016 and 2017, as labour force and employment growth maintain similar rates of growth. Despite an aging workforce the labour market is expected to be positive for the St. John's area this year and through 2017 as people continue to find employment in all sectors.

Net migration is not expected to stabilize until 2017, as the level of out-migration from NL to other parts of Canada continues to offset gains in international immigration. International immigration will contribute positively to population growth over the forecast period. This will be driven by the need for additional expertise for new energy and resource investment opportunities that begin to take shape. The negative outflow from interprovincial migration will gradually subside, but this component of migration will stay negative, as a weak outlook for employment challenges people to look for opportunities outside NL. Overall, net migration is expected to be positive within the St. John's area this year and in 2016 and 2017, as people continue to be attracted to the region's labour market and higher wages. This will not be enough to influence housing demand materially to the upside,

however, due to the uncertainty with the direction in commodity prices, particularly oil.

Weekly earnings in the St. John's area averaged $987 year-to-date 2015, down 2.7 per cent compared to a record $1,014 a year ago. This is the first year-over-year decline recorded in earnings in ten years; however, they continue to remain among the highest in Canada, behind Alberta. Most of the recent growth in income and employment stemmed from the province's record capital project activity, which generated tremendous economic spinoff activity throughout the St. John's area since 2006. The recent sharp decline in the price of oil, however, has had a negative impact on oil related capital projects with oil companies having been forced to cut back on their capital expenditure programs. This is expected to have moderately negative implications on income and employment growth. Over the longer term, both the province's and St. John's economic future remain bright and will continue to be supported by projects focused on both energy and resource investment as well as other growth sectors of the economy. But there are risks to the forecast if commodity prices and global demand remain weak over the forecast period.

Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand.
Employment	An active labour market in St. John's area will remain supportive of the housing market.
Income	Average weekly earnings of close to $1,000 continue to drive real wage growth, which will contribute positively to housing demand.
Population and Net Migration	Population growth continues to be driven by positive net migration to the St. John's area and will help support demand for housing over the forecast period. Weaker commodity prices will impact demand as people may not spend if they are not certain about their future income and employment opportunities.
Resale Market	With the upward trend in listings, MLS® sales will remain flat, with muted price growth.

Forecast Risks

- The level of oil production and the price of oil represent the two greatest factors underpinning the local economy. This is also the most significant risk to the forecast in terms of both upside and downside risk potential. The price of iron ore also poses additional risk to the forecast.
- The current inventory of newly built homes for sale could have a larger than expected negative impact on housing starts for 2016 and 2017, if they are not absorbed at a rate that keeps the current level of inventory stable.
- House price growth since 2007 has led to historically high prices in the St. John's area. If interest rates or unemployment were to increase sharply, heavily indebted households could be forced to liquidate assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.

Forecast Summary St. John's CMA Fall 2015									
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	1,292	1,243	907	700	-22.8	750	7.1	800	6.7
Multiples	861	491	323	275	-14.9	300	9.1	325	8.3
Starts - Total	2,153	1,734	1,230	975	-20.7	1,050	7.7	1,125	7.1
Average Price ($):									
Single-Detached	387,439	395,388	415,435	430,000	3.5	430,500	0.1	431,000	0.1
Median Price ($):									
Single-Detached	345,000	359,000	377,939	391,000	3.5	391,500	0.1	392,000	0.1
New Housing Price Index (% chg) (St. John's)	0.2	1.8	0.9	0.2	-	0.5	-	0.5	-
Resale Market									
MLS® Sales	3,871	3,617	3,281	3,300	0.6	3,250	-1.5	3,200	-1.5
MLS® New Listings	7,284	8,045	8,685	8,900	2.5	8,950	0.6	8,975	0.3
MLS® Average Price ($)	285,529	301,333	306,405	300,000	-2.1	303,000	1.0	306,000	1.0
Rental Market									
October Vacancy Rate (%)	2.8	3.2	4.6	4.2	-0.4	4.0	-0.2	4.0	0.0
Two-bedroom Average Rent (October) ($)	798	864	888	900	1.4	915	1.7	930	1.6
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	115,800	114,000	116,300	117,500	1.0	118,750	1.1	119,900	1.0
Employment Growth (%)	5.7	-1.6	2.0	1.0	-	1.1	-	1.0	-
Unemployment rate (%)	7.4	6.3	6.0	6.5	-	6.4	-	6.3	-
Net Migration	2,791	2,789	2,055	2,250	9.5	2,350	4.4	2,450	4.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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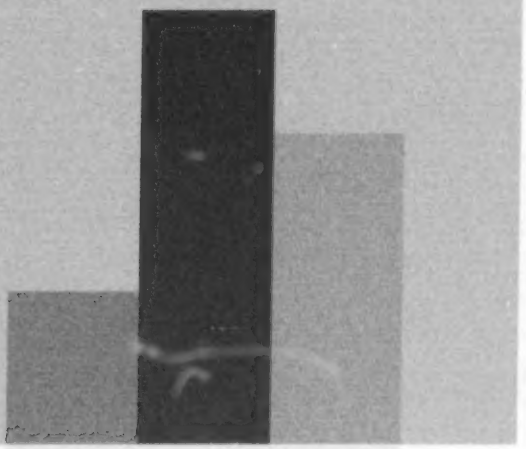

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